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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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If Consumer Spending Falters . . .

Despite widespread predictions that a consumer-led recovery may be near, such expectations received an unwelcome jolt last week. According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, dropped 1.5 per cent in June month-over-month, following a strong 2.7 per cent gain in May. To be sure, this development does not necessarily preclude a midsummer rebound—since it primarily reflects an abrupt easing of auto sales—but it might delay it. For while households may be unwilling to boost spending for long in today's economic environment, businesses are largely unable to do so—hard-hit by weak final sales, still escalating costs, sluggish productivity growth and sizable chunks of idle capacity.

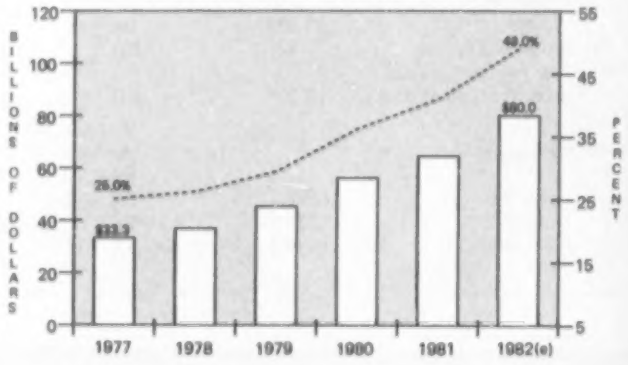
Perhaps the most obvious result of this dismal combination of factors has been a severe erosion of corporate profitability. With the economy mired in a deep slump, before-tax corporate profits fell by a huge $63 billion, or almost 30 per cent, during the six months ending March 31, to a seasonally adjusted $172 billion annual rate. This two-quarter earnings drop far exceeds its nearest rival for this dubious honor: namely, the $35 billion, or 25 per cent, decline in before-tax profits which occurred during the last two quarters of the 1973-75 recession. Nor is the outlook much brighter. Judging by the initial flurry of second quarter earnings reports, corporate profits remained soggy, especially in many basic manufacturing industries.

Not surprisingly, with corporate earnings in a free fall and cash flows squeezed, business dependence upon debt has grown. And since an ever-larger proportion of this debt has been of short maturity, acquired at or near record high interest rates, most traditional indicators of corporate financial health have weakened. One measure, the ratio of short-term liabilities to total liabilities, surged to its highest level ever in the first quarter of 1982—about 43 per cent. What makes this such a disturbing development is that corporations are usually refunding large amounts of short-term debt in the long-term markets at this stage of the business cycle, thereby taking the opportunity to reduce, rather than enhance, their vulnerability to abrupt changes in borrowing costs and/or credit availability.

. . . Neither Business Spending . . .

With the bond markets both volatile and costly, however, this process has not occurred. As a result, expensive short-term debt has aggravated business illiquidity, especially the corporate interest burden.

NET CORPORATE INTEREST EXPENSE (BAR) VS. CORPORATE INTEREST BURDEN (DOT)



As shown in the chart, interest outlays alone could reach $80 billion in 1982, almost 2½ times that of just five years ago. What is more, the proportion of net cash flow absorbed by interest payments may soar as high as 49 per cent this year.

These difficulties suggest that the level of dividends paid by many companies may be vulnerable. To date, cash distributions economy-wide have continued to rise, running at a seasonally adjusted $67 billion annual rate in the first quarter of 1982. This was about $1 billion higher than cash payouts in the fourth quarter and, interestingly, a sizable

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$7 billion above first-quarter 1981 levels—when after-tax profits were more than $50 billion higher. Thus, the ratio of dividends paid to after-tax earnings, the dividend payout ratio, hit 57 per cent in the first quarter, a new record high.

If corporate earnings slump further and firms attempt to either increase, or even maintain existing dividend payments, the dividend payout ratio will spike higher—and place another heavy strain on corporate balance sheets. Already, the pace of dividend increases has slowed sharply. During the first three months of this year, the number of dividend hikes was down 24 per cent compared with the same period a year ago; in the second quarter, it was off almost 40 per cent.

. . . Nor Exports . . .

It is equally unlikely that the export sector will pull the U.S. economy out of its present doldrums this year. In spite of the fact that exports have become an increasingly important contributor to the U.S. economy in recent years, the combination of a strong dollar and global recession has hit U.S. exports hard. Although the value of exports rose six per cent, to $233.7 billion (fas) in 1981, export volume fell by more than three per cent. Further, most of the growth in export value in 1981 occurred

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/7/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.041	+ 1.581	+10.027
Loans to Depository Inst.	1.072	– .544	– .792
Float	1.767	+ .025	– 1.142
Total Reserve Bank Credit	153.204	+ 1.359	+ 6.688
Treasury Deposits with Federal Reserve Banks	3.370	+ .230	+ .436
Currency Outside Banks	131.957	+ 1.699	+ 7.710
Member Bank Reserves:			
Required	39.214	– .585	– .815
Excess (Deficiency)	.694	+ .097	+ .268
Total Reserves Held	39.908	– .488	– .547
Net Borrowed Reserves	.127	– .624	– 1.070
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.196	+ .074	– .174

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	451.3	+ 0.5‡	+ 4.8‡
M2 (June '82)	1,906.9	+ 8.9	+ 9.5
M3 (June '82)	2,294.2	+ 10.4	+ 10.2
L (February '82)	2,687.2	+ 8.8	+ 11.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 7/16/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.50%	9.50%	11.30%
* Federal Agencies	12.28	13.37	14.24
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.35	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.05	14.00	14.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	12.38%	Aug.	13.35%
15- 29 days	12.75	Sep.	13.40
30- 59 days	13.00	Oct.	13.40
60- 89 days	13.00	Nov.	13.40
90-179 days	12.88	Dec.	13.35
180-239 days	12.00	Jan.	13.10
240-270 days	12.00		

‡Industrial Paper—Prime			
30- 89 days	13.38%	†Federal Funds Effective Rate	12.70%
90-120 days	13.38		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,998	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,485	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.7	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	May '82	12.0%	2.4%	9.6%
Change in Producer Prices*	Jun '82n	12.0%	0.0%	7.2%
Civilian Employment (Thousands of Persons)†	Jun '82	99,764	100,117	100,430
Unemployment as % of Civilian Labor Force†	Jun '82	9.5%	9.5%	7.4%
Personal Income*	May '82	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100)†	May '82	127.7	127.3	136.0
Industrial Production Index (1967=100) †	Jun '82n	138.4	139.4	152.9
Net Change in Consumer Installment Credit†	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	May '82	–$ 3.29	–$ 0.32	–$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82	1,086	888	1,172
New Construction Expenditures*	May '82	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories†	May '82n	$ 505.7	$ 510.1	$ 490.3
Total Business Sales†	May '82n	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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in the first quarter of the year. Virtually every month since then, the value of exports has deteriorated. In the first five months of this year, exports were running at a seasonally adjusted $221 billion annual rate, about five per cent below the level for all of 1981.

The erosion in U.S. exports has been widespread both in terms of commodities and customers. From January through May of this year, exports of manufacturers (65 per cent of total exports) were almost eight per cent below the levels for the comparable period last year. Agricultural exports for the same period were down 11 per cent. Reflecting the gloomy economic situation abroad, U.S. exports to other areas of the world have declined, except to the OPEC countries, where exports for the first five months of 1982 were 9.1 per cent above the same period one year ago. But exports to Japan, Canada, the European Community (EEC) and the non-oil developing countries (non-OPEC LDCs) were all down sharply.

. . . Will Take Up The Slack

Against the backdrop of plummeting exports, the dollar has appreciated strongly. Since the beginning of 1981, it has risen over 18 per cent on a trade-weighted basis. The structure of U.S. exports is

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/30/82)	138,929	+ 3,478	+17,598
New York City (6/30/82)	35,396	+ 2,269	+ 5,569
Commercial Paper (6/30/82)	179,845	– 733	+32,946

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/30/82)	212,150	+ 3,645	+29,092
New York City (6/30/82)	59,868	+ 1,007	+ 6,312

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/30/82)	490,785	+ 6,073	+40,201
New York City (6/30/82)	114,963	+ 2,066	+ 5,247

Financial Markets

	Friday 7/16/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.52%	– .23	– 3.57
180-Day Bills†	12.42	– .18	– 3.11
Longest Bills†	12.89	– .11	– 2.40
Recent Issues:			
14³/₈s 6/30/84	13.18	– .22	
14⁷/₈s 6/30/86	13.78	– .02	
13³/₄s 5/15/92	13.13	– .59	
14s 11/15/11	13.31	– .05	
Municipals:			
Bond Buyer–20 Bond Index* (7/15/82)	12.36%	– .11	+ 1.27
Blue List Total ($ Million)	$ 809	– $ 15	– $142
30-Day Visible Supply ($ Million)	$2,535	+ $825	+ $870
Total	$3,344	+ $810	+ $728
Corporates:			
Moody's Aa Composite (7/15/82)	15.29%	– .15	+ .60
30-Day Visible Supply ($ Million) ‡	$1,728	+ $303	NA
Stocks:			
Dow-Jones Averages:			
Industrials	828.67	+ 14.55	– 130.23
Transportation	322.69	+ 2.10	– 88.71
Utilities	107.37	+ .55	– 1.02
65 Stocks	320.74	+ 4.04	– 52.99
Standard and Poor's 500 Stocks	111.07	+ 2.24	– 19.69
N.Y.S.E. Composite Index	63.67	+ 1.13	– 12.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	63,826	+10,910	+ 20,972

* 46% Taxable equivalent 22.99%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

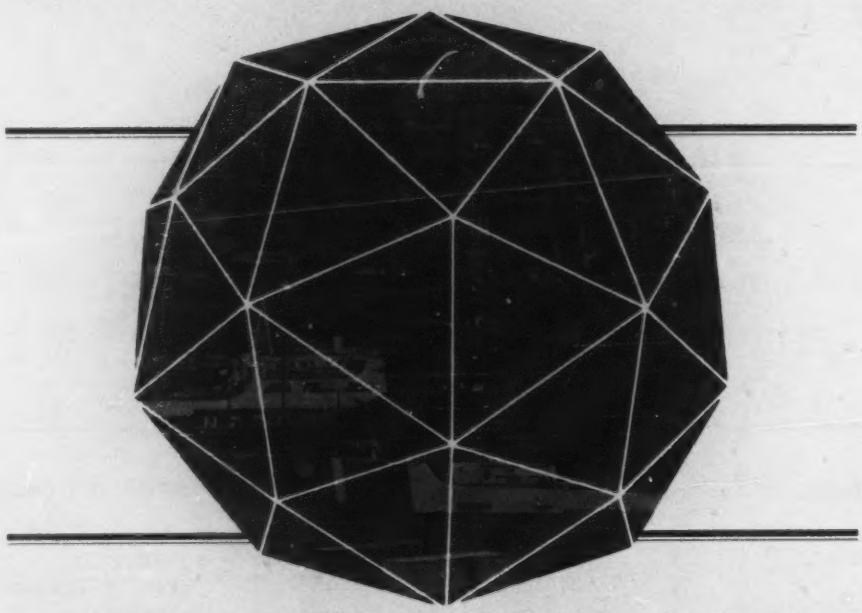
EURODOLLAR DEPOSIT RATES (bid)	Friday 7/16/82	Week Ago
Overnight	12.75%	13.00%
1 month	14.13	14.88
3 month	14.81	15.31
6 month	15.13	15.56
1 year	15.13	15.56
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.65%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.85

FOREIGN EXCHANGE SPOT RATES New York Opening (7/16/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02105	47.51
Canada	.7904	1.2652
Denmark	.1159	8.6255
France	.1441	6.9400
Germany	.4009	2.4945
Italy	.0007176	1393.50
Japan	.003905	256.08
Mexico	.02061	48.53
Netherlands	.3638	2.7490
Switzerland	.4709	2.1238
U.K.	1.7168	.5825

sensitive to an appreciating dollar, particularly in a period of low growth abroad. Industrial supplies and capital goods have suffered particularly. In May of this year, exports of capital goods were running 6.9 per cent below May, 1981 levels and exports of industrial supplies were down 7.3 per cent.

The prospects for the rest of 1982 give little cause for cheer. Interest rates in the United States are expected to remain at lofty heights and the present expectation of a small current account surplus both suggest continued strength for the dollar. Further, the likelihood of a shallow recovery in the United States and the lack of clear-cut evidence of economic recovery abroad does not augur well for the growth of world trade in 1982. Recent forecasts for real growth in the industrial countries are for a meager one-half to one per cent this year after 1.2 per cent in 1981. ■

When trading opportunities knock, the Geobankers have the banking network to open doors for you.



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